THE NEW YORK

Certified Public Accountant

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AN ADIRONDACK VIEW

High I. Q. Hello, yourself! It's proper to address accountants in this manner. During WW II an I.Q. test of all enlistees in Chicago showed that accountants had the highest I.Q. of any occupation. (There should be a plaque to this effect in John Carey's office.)

In a college psychology class our professor admitted that his wife had to be the family chauffeur. When he drove the car, some current case or problem would begin to stir in his thinking machine and lo—the car would head for the sidewalk.

Just recently some magazine, or newspaper, or radio talker, reported, that current studies showed that people with a low I.Q. were better drivers than people with a high I.Q. The high I.Q. people had much to think about—and had an automatic shift in their thinker. This resulted in a diversion of attention from driving—and accidents.

So here is the warning to all of you; you must either let the wife or kids drive, or reduce your I.Q.—and that is really a problem, not covered in the *IRC* or the *Accountants Handbook.*

LEONARD HOUGHTON, CPA
Saranac Lake Branch of
the "Adirondack Chapter."

Professional Calendar

Binghamton Chapter

November 20, Monthly meeting and technical session on "Problems of Perpetuating the Small Business Entity"; speaker—Llewellyn L. Rogers, C.P.A. (Mark Twain Hotel, Elmira).

December 11, Monthly meeting and technical session on federal income taxes to be presented by the Society's Federal Taxation Committee (Carlton Hotel, Binghamton).

Nassau-Suffolk Chapter

November 20, Meeting with local bankers (Garden City Hotel).

December 8, Tax meeting (Southward Ho Club, Bayshore).

Richmond Chapter

November 28, Meeting on federal income taxes to be presented by the Society's Federal Taxation Committee (Meurot Club, St. George).

Syracuse Chapter

November 7, Panel meeting on Federal Taxation with participation by members of the Society's Federal Taxation Committee (Hotel Syracuse, Syracuse).

December 13, Meeting with bankers on "Mutual Problems of Bankers and CPAs"; speaker — Jerome J. Styker (University Club, Syracuse).

New York City

November 8, Technical session, Committee on Stock Brokerage Accounting (Engineering Societies Building).

November 13, General meeting; Discussion of Commission's Report on Standards of Education and Experience for Certified Public Accountants (Palm Terrace, Hotel Roosevelt).

November 19, Technical session, Committee on Banks and Savings Institutions Accounting (Engineering Societies Building).

November 29, Technical session, Committee on State Taxation, Other Than New York (Engineering Societies Building).

December 5, General meeting; featured speaker—Dr. Marcus Nadler (Hotel Roosevelt).

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(Continued on page 633)

BUSINESS OPPORTUNITIES (Cont'd)

(Continued from page 632)

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BOOK REVIEWS

Operating Results of Limited Price Variety Chains in 1955

By David Carson. Bul. No. 146, DIVISION OF RESEARCH, HARVARD BUSINESS SCHOOL, Soldiers Field, Boston 63, Mass., 1956. Pages: vi + 38; $2.00.

Self-Service in Variety Stores

By Lawrence R. Robinson and Eleanor G. May. Bul. No. 147, DIVISION OF RESEARCH, HARVARD BUSINESS SCHOOL, Soldiers Field, Boston 63, Mass., 1956. Pages: vii + 52; $3.00.

Bulletin No. 146 is the twenty-fifth in a series of reports on the sales, margins, expenses and other statistical data relating to limited price variety chains. It combines and analyzes data received from 44 chains operating 5,885 stores and doing approximately 85% of this type of business. In addition to 18 tables and 4 charts there is Mr. Carson's excellent textual analysis. In Section I of the report the data in its various aspects is summarized; in Section II the yardsticks are tabulated. Coupled with the succeeding bulletin No. 147 dealing with aspects of self-service in variety stores, we have two essential references for all interested in the variety chain field.

LEONARD PRICE

New York, N. Y.

Encyclopedia of Accounting Systems, Volume I

By Robert I. Williams and Lillian Doris. PRENTICE-HALL, INC., Englewood Cliffs, N. J., 1956. Pages: viii + 391; $12.50.

This book is Volume I of a five-volume series. The purpose of this encyclopedia is to furnish practicing accountants with the details of the accounting procedures peculiar to a variety of businesses. It is presumed that the reader is familiar with the fundamentals of accounting, and with the manual and machine methods commonly used in an accounting office. No attempt has been made to cover the usual accounting procedures for handling cash, accounts receivable, accounts payable and payroll, or for maintaining internal check and control.

The editors have tried to assure a uniform development of the accounting system for each type of business by listing the topics to be considered by the contributing expert in the field. This list included such topics as: characteristics, organization, objectives, classification of accounts, peculiarities of procedures, cost system, time and payroll system, depreciation records, reports to management, time-saving devices, and modification of the system for small business firms.

Although this outline and objective seems ideal in arrangement and planning, the results of its use were somewhat dependent upon the interest and experience of the specialist preparing the material on the particular accounting system. Therefore, the relative emphasis placed on each topic in the outline varied with each contributor.

The following types of business firms were covered in Volume I of this series: advertising agencies, airports, architects, automobile repair shops, bakeries, building contractors, bottlers of carbonated beverages, cement producers, manufacturers of children dresses, churches, commercial banks, commercial finance companies, and cotton goods converters —thirteen in all. These, from the viewpoint of the editors, are fairly representative of a certain segment of American business activity. Many readers may not agree with this choice of types. Nevertheless, it must be admitted that the editors have been reasonable in their selection.

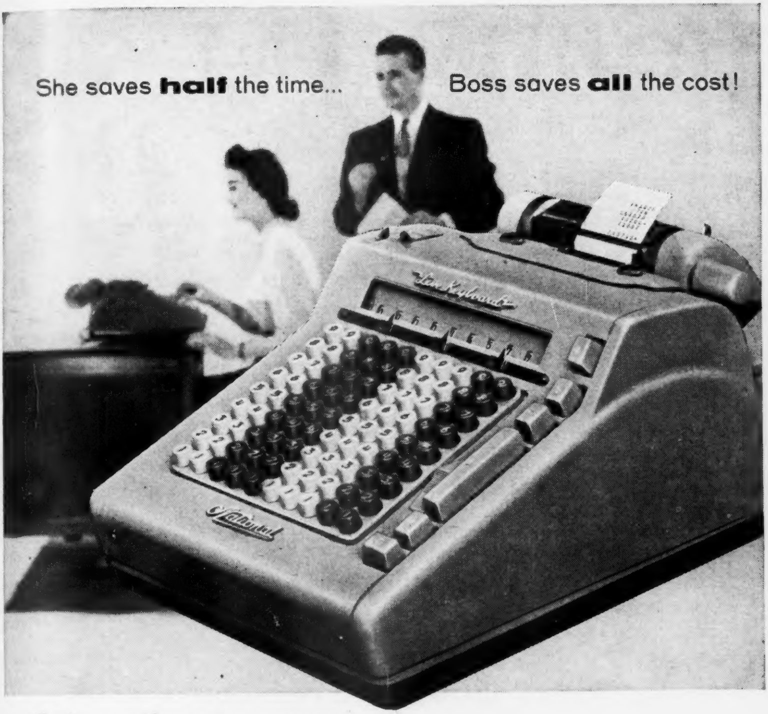
No professional publication is ever without some areas in which changes, improvements or criticism can be made. This volume is no exception. It was rather difficult for the reader to reconcile the amount of space devoted to some business types. For example, in the discussion on Accounting System for Churches, thirty-two pages were required, whereas in the more involved situations of Automobile Repair Shops, only twelve pages were required, and for Cement Producers, only seventeen. Furthermore, in the discussion on Advertising Agencies, thirteen pages were devoted to the Chart of Accounts which included, for each account, a rather elementary discussion of the nature of the charges and credits, whereas the comparable discussion of charts of accounts for Commercial Banks and for Commercial Finance Companies required two and three pages, respectively. Although many of the illustrative forms and reports are shown with representative figures, some of those shown blank might have been more helpful if representative figures had also been reflected.

In spite of these minor shortcomings, the reviewer feels that this volume, and no doubt the other four still to be issued, should be part of the professional library of every practicing public accountant. It represents a welcome addition to the up-to-date literature in the professional field of accountancy.

JOHN J. W. NEUNER

Bernard M. Baruch School of Business and Public Administration,

The City College of New York



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* The award consists of a key in the design of the Society's seal appropriately engraved, a scroll, and a one-year subscription to "The New York Certified Public Accountant." It is granted annually to the member of the graduating class who has completed the *registered accounting curriculum* with the highest honors in accounting studies.

THE NEW YORK CERTIFIED PUBLIC ACCOUNTANT

BENJAMIN NEWMAN, *Managing Editor*

The matters contained in this publication, unless otherwise stated, are the statements and opinions of the authors of the articles, and are not promulgations by the Society.

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The President's Page

The Annual Meeting of the American Institute of Accountants

This is a report on the meeting of the American Institute in Seattle the last part of September. To read it in November might seem to be old news but the subjects are relatively timeless, many of the people are our own people and the friendly atmosphere which surrounded it would be a welcome one yesterday, today and tomorrow.

In our own meetings we have also dealt with the technical subjects: "Evaluation and Preservation of an Accounting Practice" (including "Practitioners Emergency Assistance"), "Specialized Accounting Problems", "Expansion of Services to Clients", "Current Auditing and Reporting Problems", "Estate Planning", "Cooperation between the Legal and Accounting Professions" and "Federal Taxation".

Two significant events occurred in the general meeting: the decision to submit to the membership a proposal for change of the name of the Institute to The American Institute of Certified Public Accountants, and the adoption by Council of a statement of principles on regulatory legislation and a suggested form of model bill.

Our own members played a major role. The names of those who participated in the programs are evidence of this: Thomas G. Higgins, John C. Potter, Weldon Powell, John Peoples, John W. Queenan, J. S. Seidman, Thomas J. Green, Maurice Austin and Mark E. Richardson, (nine out of forty-one accountants on the program). I addressed the Association of Certified Public Accountant Examiners on "Cooperation between State Boards of Accountancy and State CPA Societies".

The meetings were superbly organized with meticulous attention to detail and with warm, personal interest and attention by the Seattle accountants and their wives, so that the meetings and social events ran very smoothly and we felt the friendliness of the local people. It was also an occasion to see fellow New Yorkers for I met and talked with seventy-seven from New York, and there may have been a few I missed.

One of the new subjects was the report of the Commission on Standards of Education and Experience for Certified Public Accountants. Again New York played an important role with seven New Yorkers out of the twenty-four members represented on the Commission and two out of five on the Executive Committee of the Commission. This report with its thorough study of the professional practice of CPAs, the legal regulation of account-

ing, the educational facilities for CPAs, the experience requirements and the CPA Examination, gives a broad and sound background to its important recommendations as to goals for education and experience, for CPAs to meet the prospective needs of the public and the profession.

The report of the Commission will be vigorously debated for a long time to come. There are in it partial dissents by Emanuel Saxe and J. S. Seidman. However, it puts the whole subject before us in a new and strong light, and wholesome controversy over it will result in clarification and advance.

Our General Session, on the evening of November 13th at the Hotel Roosevelt in New York City, will consider this important, if controversial, report. A spirited panel presentation and a lively discussion from the floor are expected to make this an outstanding and memorable event.

We shall also try to work out plans to bring to the Society members the best of the thoughts in the other sessions of this 69th General Meeting of the American Institute of Accountants.

ARTHUR B. FOYE,
President

The CPA and His Client: A Study In Public Relations

By John L. Carey

This article explores the practical problems involved in client relationships and suggests guides for enhancing the client's trust and confidence in his accountant.

The Shoemaker's Children

As the shoemaker's children sometimes go without shoes, so CPAs who provide services to management lack effective management of their own practices. It is easy to forget that efficiency and economy in the management of professional practices are as important as in business.

Some of the major classifications of managerial responsibility in business are finance, production, research and development, sales, personnel, and public relations. It does not require much imagination to think of problems which accounting firms must handle under each of these categories, and it seems clear that methodical planning and sound management in each area would be highly rewarding.

"Sales" present special problems. Professional men properly cannot advertise or solicit business. They must rely upon satisfied clients as their principal source of new engagements. Client relations, therefore, are of vital importance.

John L. Carey is Executive Director of the American Institute of Accountants. He is the author of the noted work, *Professional Ethics of Public Accounting*, a revised edition of which is being published by the A.I.A. under the title *Professional Ethics of Certified Public Accountants.*

This article is a condensation of excerpts from the author's columns which have appeared in *The CPA*, the monthly membership bulletin of the American Institute of Accountants and appears as a supplementary section of the A.I.A. public relations booklet, *The CPA and his Client.*

The Need for a Personal Touch

Salesmanship, as I said earlier, is a rather naughty word in the professions—and in its worst sense rightly so.

But in the higher sense of influencing others by legitimate means to receive ideas or services, salesmanship is practiced by all successful professional men—indeed by all successful men and women.

What does the clergyman do but selflessly sell ideas? The doctor's bedside manner often helps the patient without medication. Lawyers are widely regarded as the most effective persuaders of all.

What about CPAs' salesmanship?

Not much, I fear. Few CPAs seem to have a systematic plan for keeping in frequent personal touch with clients, displaying a continuing and studious interest in the client's affairs, volunteering appropriate suggestions, or oc-

casionally sending clients pertinent information. The common routine seems to be to get the work done, present the return or report, move on to the next job. Even the successful CPAs interviewed in this survey confess that they do not pay enough attention to their clients—and explain this sin of omission on the grounds that they just do not have enough time. Doesn't this situation call for some soul searching? Doesn't it suggest (1) that the practitioners may have too many clients to serve properly, or (2) that they are so occupied with lesser matters that the important tasks are left undone? Surely, the main objective is not to acquire as many clients as possible, but to serve as effectively as possible the clients one already has. This demands some means of letting the client know the many ways the CPA can be helpful to him, and this type of communication must be personal and it must be direct.

Good salesmen cultivate the art of seeing things from the other fellow's point of view. If you were your client, wouldn't you like your accountant to pay more attention to your problems—pay you the compliment of using a little more salesmanship?

Two Qualities of the Professional Man

This solicitude for the client, in fact, is one of the qualities possessed by every first-rate professional man.

As executive officer of the Institute, I have been served by some top-flight lawyers, certified public accountants, and public relations counsel. Privately, I have been the patient of some eminent medical men. These professional men not only work; they worry. They don't just lay reports or opinions on the client's desk. They share with him the difficult tasks of forming judgments and making decisions. They show concern for his problems by sacrificing their own convenience to meet his needs and by responding to his requests promptly. They think about his affairs continually and initiate suggestions of their own, calling the client at home on evenings or week-ends when something urgent happens.

There is another quality possessed by well-regarded professional men: the quality of independence. This is not, as some of us may have thought, a monopoly of the accounting profession. A top-flight lawyer, though he be an all-out advocate, will speak firmly when the client is wrong. A doctor tells the patient what to do, not vice versa. Any self-respecting public relations counsel will not continue to serve a client who conceals important information from him or continually ignores his advice. As one professional consultant said, "We are your devoted servants, as long as you trust us." While accommodating himself to his client's wishes within proper limits, the professional man in a showdown must be boss in the area where he takes responsibility. The strongest, most enduring professional relationship must be based on the unspoken but ever-present thought that it will terminate the moment the client loses confidence in his adviser.

Solicitude breeds trust. Independence breeds confidence. These qualities, added to basic competence, can make a professional man almost indispensable to his client.

The Discharge of a Trust

This approach to an accounting practice can be stated in another way: the CPA must be prepared to accept responsibility.

Now responsibility is a grave word. According to the dictionary, it means the state of being answerable legally

or morally for the discharge of a duty, trust or debt.

Professional men, almost by definition, assume inescapable responsibilities. They are answerable morally for the discharge of the trust that the public puts in them by relying on their technical ability, their honesty, and, above all, their judgment.

A physician takes solemn responsibility in announcing his diagnosis. A lawyer takes a similar responsibility for supporting his interpretation of the law. And a certified public accountant, in signing his opinion on a financial statement, assumes responsibility for decisions involving the exercise of the most discriminating judgment, on which many people, unknown to him, may depend in risking their money.

It seems to me that the stature of the accounting profession has increased in direct relation to the assumption of increased responsibilities by CPAs. Some efforts have been made to impose unfair legal responsibilities on accountants, and these must be resisted. Professional responsibility cannot mean infallibility. CPAs do not profess to be guarantors, and have never concealed the limitations of accounting and auditing techniques.

But the values of the moral responsibility assumed by CPAs are not yet as widely understood as they should be. Too many clients (and perhaps even too many CPAs) still think that the principal element in professional accounting service is the technical skill required to prepare financial statements, take inventories, make out income tax returns, and so on. Even in published reports of some big corporations, the CPA's opinion is often given too little prominence. Yet that is the really important thing the client gets for his money—the protection of independent judgment, a sharing of the burden of moral responsibility.

The Client's Major Goal: Profits

It would be asking a lot, however, to expect a client to be content with merely gaining some "peace of mind" through his reliance upon a professional accountant. He will want more from accounting than that—he will want it to be concerned, as Mark Eaton said in the fiftieth anniversary issue of *The Journal of Accountancy*, with the production of profits.

Too many people, in fact, think of auditing as a "necessary evil" to satisfy the demands of outsiders or as a "post mortem" verification of what management already knows.

But an audit is, or can be, a creative service. It can be in itself an analytical survey for management; an aid to communication with stockholders, employees, creditors; a buttress to good credit standing. It can also point up specific management problems — the need to strengthen internal control, to analyze costs, to prepare budgets, to revise insurance coverage, and so on.

An audit can be as creative as the people who conduct it, and a creative audit can easily be identified with production of profits. Perhaps this is not widely recognized because independent audits, unlike the physician's examinations, have not been commonly followed by diagnosis and prescription.

"Management services" by CPAs are widely discussed but variously defined. Broadly, of course, the term embraces everything that helps management, including the audit and suggestions which develop from it.

Two problems often arise in efforts to expand CPAs services to management: (1) It is difficult for the CPA to find time to study his client's affairs

and communicate his ideas to the client. (2) It is difficult to formalize general business advice in a way that justifies adequate compensation for the time it takes to devise sound recommendations. But neither problem is insuperable.

No professional man in his right mind will jeopardize client relations by venturing beyond the limits of his competence. But any CPA should be able to raise significant questions, and if he cannot answer them himself, he can tell the client where expert, specialized advice can be found. This, too, is management counseling — and it identifies the CPA with the client's major goal: the production of profits.

The Question of Fees

It needs to be reemphasized that the professional man will be unable to broaden his own scope or acquire gifted assistants unless he can obtain an adequate income.

It is no derogation of the professional nature of accounting to recognize that its practice is an economic enterprise. It must have an adequate income—or it fails. The services offered must command a price which will permit the payment of salaries sufficient to attract good staff men in a highly competitive market and which will make possible the continuing research and study that alone can insure a high-level of professional performance.

Fees for professional accounting services generally should be higher. But what is high? What is low? What are clients willing to pay? Young practitioners are often eager to know what others charge; but fee studies made by some local societies are not too helpful as guides because they show such wide ranges of fees for similar work.

The point is, of course, that knowledge and experience of the practitioner, and the value of his service to the client—both variable factors—are important elements in fee setting. A CPA may value his time at $10,000 a year, and set his per diem charge accordingly; but if some of his time is spent doing a junior's work, he will not be wise to charge for that time at partners' rates. On the other hand, accounting or tax service that solves important problems which a client cannot solve for himself might be valued by the client's income scale, rather than by a predetermined per diem rate. In other words, the rendering of useful professional services is something more than merely selling time.

Accounting fees are depressed in some areas by competitive bidding, by careless quotation of "estimates" without adequate information, by a custom of taking on "off-season" work at lower than normal rates. These practices encourage businessmen to under-value accountants' services—and many businessmen are happy to oblige.

Why do some accountants, in busy days like these, feel that they have to offer bargain rates to attract a new client, even if they lose money on him at first? Why are some accountants willing to depress the whole scale of fees in their community (a scale which will determine their own future earnings) by making guesses at the cost of auditing or accounting work when businessmen are "shopping around"? Why do some CPAs suggest that they are worth less in the summer than in the winter? The next question is likely to be—are they really worth that much in the winter?

Commercial competitive elements like these ought to have no place in a professional practice. Each practitioner can command certain fees according to his technical skill, experience, judg-

ment and professional responsibilities —regardless of what other practitioners may charge. As I said earlier, sheer volume has little merit in a professional practice. The CPA who is known for the high quality of his services has really nothing to fear in the future even if a buyers' market for accounting services should ever develop. The practitioner who dreads offending a potential client and accepts assignments which he is not equipped to handle properly is likely to be in far greater peril.

The Accounting "Breakthrough"

The proper approach to fees, the development of solicitude for the client, a sense of professional independence— all of these can enhance the CPA's ability to render a useful service to clients. That, in turn, could have a profound impact on the professional status of accounting.

The qualities of a real profession have been stated or implied several times in this discussion: a technical field requiring advanced intellectual training, the use of judgment, the acceptance of responsibility, the assumption of authority in one's own field, and perhaps most of all, a desire to help people, a willingness to share their worries and aid them in making difficult decisions.

CPAs as a group surely qualify under this definition; but not all of them do. Many CPAs have not yet accepted in their own minds the obligation to assume responsibility and to exercise authority in their own field, or to assist people beyond the strict limits of services specifically requested.

For centuries accounting was equated with bookkeeping. In this century it has become a real profession.

The accounting breakthrough from clerical-type services to professional type services must be completed as quickly as possible so that the profession as a whole, both in public practice and in industry, will be universally accepted as a true profession. Only then will it be given the opportunity to serve to the full measure of its capacity.

This happy day can be hastened by a conscious effort on the part of CPAs. They can hasten it by stressing the constructive elements of their work and by identifying their services with the creative activities of management such as organization, planning, communication, measurement of progress. They can hasten it, too, by being eternally vigilant in seeking to improve their relations with that very important person: the client.

How to Save Gross Receipts Taxes

By William Etkin, C.P.A.

This paper suggests several methods of minimizing the impact of the New York City Gross Receipts Tax. A form of worksheet, which has been found very useful in compiling the necessary data for this purpose, is also appended.

In 1934, New York City as part of its relief program, imposed an *emergency* tax of 1/20 of 1% of the gross receipts of a business venture. For the privilege year beginning July 1, 1955, as part of the City's *regular* tax structure there will be imposed on subject firms, a tax of ¼ of 1% of the gross receipts of a general business. Thus, there has been a 500% increase in the tax rate over the years. With these constant increases in tax rates, there inevitably arises in the minds of businessmen and their tax advisers that old familiar question, "What can we do to reduce our tax liability"?

We are all well aware of the basic principles involved. Briefly, this tax is generally computed on the basis of net receipts for a calendar year, and is payable in full on the succeeding May 15th. Thus, the tax due in May, 1956, is based on the receipts for the calendar year 1955, and is for the privilege period beginning July 1, 1955, and ending June 30, 1956.

William Etkin, C.P.A., is a member of our Society and of the American Institute of Accountants. He is now serving as Chairman of our Committee on Municipal and Local Taxation.

Mr. Etkin is a member of the firm of Clarence Rainess & Co., Certified Public Accountants. This paper was presented by him at a technical meeting of the Society, held on May 3, 1956, under the auspices of the Committee on Municipal and Local Taxation, at the Engineering Societies Building.

Tonight, we will analyze a number of different fact patterns and extract from them certain basic principles that can be applied to reducing our tax liability. However there are no panaceas, no short cuts, no "one shot" propositions in achieving a reduction in tax, but rather time must be spent in a careful and painstaking analysis of the receipts for the period involved.

A basic principle to remember with regard to this tax is that we are not concerned with the location of the main office of the firm, nor with which office or store was billed, but rather with the question of where was the merchandise delivered! That is the $64,000 question! Too often in compiling the necessary analysis of receipts, it is based on the address shown on the invoices. Often that can be a costly mistake. It is advisable to refer to the shipping receipts to determine the destination of a shipment, rather than depend on an accounts receivable ledger sheet. Thus, if the main office of a chain is located in New York City but all the deliveries to this chain are made to its stores located outside the city, the amount of sales includible in the tax base can be reduced materially if the information is correctly obtained.

Only Place of Business in New York City

In our first illustration we will consider the basic type of situation, i.e., where a firm has only one place of bus-

iness, which is located in New York City. All its goods are shipped from this location.

This case presents few problems. As all the activities of this type of firm are localized within the city, there is no question that it is doing business within the city and is therefore subject to tax. Obviously a reduction in tax liability could come about through increased sales to out-of-state or foreign customers rather than to New York State customers. Usually it is neither convenient nor possible for a firm to change its sales policies so as to solicit foreign and out-of-state sales primarily.

However, affirmative answers to the following questions will reduce such a firm's gross receipts tax liability.

1. Does this firm import goods and make the first sale in the unbroken package? Such sales are not taxable as they are construed as being non-domestic. But, sales by the importers *after* the original package is broken or a sale by some other person, *even in the original package, is subject to tax.*
2. Is the operation such as to enable this concern to claim the benefit of the optional allocation available to a New York City manufacturer? This allocation usually results in a reduction of taxable interstate receipts by 50%. This relief is available even if most of the manufacturing operations are *farmed out* to other firms and even if such work is done out of the city. Thus, even a slight processing on the part of the New York City firm may enable it to qualify under this provision of the law. For example, a New York City dress firm which only cuts the fabrics on its premises while the rest of the operation is done elsewhere (in or out of the city), would qualify as a New York City manufacturer.
3. Are all deductible items offset against receipts?
   a) Goods returned by customers?
   b) Refunds, credits or allowances given customers, because of defective goods?
   c) Discounts allowed at the time of sale, where such discounts are given as a matter of course by established trade practice?
   d) Memorandum or consignment sales should only be included when actually consummated.
   e) Are federal and state excise taxes included in the sale invoices? Were they deducted?
   f) Freight, delivery or other transportation charges should be deducted where the seller advances sums for account of the purchaser and they are so billed on the invoice.

Effect of Direct Shipments from Without New York City

In this next illustration, the firm maintains a general office *in* New York City from which shipments are made. It also makes shipments directly from contractors, warehouses or suppliers located *outside* of the city.

1. The shipments made from its New York City offices are handled in the same manner as explained above.
2. Those shipments made from these contractors, warehouses or suppliers located *outside the city* (better known as drop shipments) *to customers located outside* of New York City are *non-taxable,* whether such third party is located in or outside of New York State. If however, shipments from these sources are delivered to customers located *in* New York City, they *are wholly taxable.* If the firm's customers have places of business both within and without New York City, it may be possible to make delivery from these outside third parties to the customers' out-of-

city places of business. Now, they are non-taxable sales.

Let us change the fact pattern slightly: Instead of a contractor, supplier or warehouse located outside the city, it is now the client's own place of business. We therefore have a place of business within New York City as well as an out-of-city place of business. We know that all shipments made from this out-of-city plant to customers located *outside* of New York City, are non-taxable. But shipments to New York City customers from such out-of-city places of business are treated differently, depending on the plant's location. If the plant is *located in New York State,* shipments to New York City customers *are fully taxable.* However, if the plant is located *without New York State,* such *sales are allocable.* Moral: When in doubt as to where to locate your new plant, stay away from New York State.

Where the shipments into New York City from the out-of-city plant are substantial, a change in corporate structure may result in a tax savings. Let us assume that the shipments from the out-of-city plant into New York City amount to $1,500,000 per annum. If the plant is located in New York State, there would be an annual gross receipts tax of $3,750, as such sales are fully taxable. Without going into details with regard to the income tax problems involved, we might consider setting up the out-of-city plant as a separate corporate entity. It would then solicit business in the city either through a sales representative or through the "parent company" acting as a selling agent. There would be no tax due from the out-of-city plant, as it would not be doing business within the city, and the parent company would pay a tax only on its commission income which would be negligible in amount. In fact, this is the procedure followed by many large firms today. Needless to say when contemplating setting up such an independent corporation, other considerations than mere New York City Gross Receipts Tax savings must be weighed. Secondly, we might consider utilizing the existing corporate framework, but to so arrange our selling and shipping procedures, that wherever possible city shipments from the out-of-city plant are avoided.

Permissible New York City Activities Without Resulting Tax Liability

The next illustration involves an area of controversy. Some of the questions have already been resolved by the *United Piece Dye Works* case; others are still in doubt. Very briefly, the *United Piece Dye Works* case held that an out-of-state printing and dyeing firm is not subject to the New York City Gross Receipts tax, even though its New York City activities included the maintenance of an office building in New York, where it serviced its accounts by advice, sales promotion, advertising and claim-handling. These activities were held to be merely incidental to its interstate operations. What business activities may a corporation engage in within the city limits and still escape liability for taxes?

If a "pure" sales office is maintained where samples are displayed, there is no liability for gross receipts tax. But let us start adding to this foundation. If the added activity is (1) the maintenance of service representatives? No. (2) maintaining a bank account in a New York City bank? No. (3) adjustment and settlement of customers' claims? No. Even if a firm engaged in *all* of these above activities, it would not be liable.

Apparently the basic test today involves the question of whether or not there is any merchandise located within the city limits. If there is none situated in the city, it appears there will not be any liability for tax. However, if there

is a bookkeeping or general office located in the city, *even though there is no merchandise here,* we may run into trouble. This is the border-line area. In determining borderline cases, the tax authorities have used as criteria:

1. Where is the location of the executive office?
2. Where is the principal place of business located?
3. Where are the orders accepted?
4. Where are the meetings of the corporation officers and directors held?

Practically, in every questionable case a review of these factors should be made. Likewise, in such a case, shift as many activities outside of the city as possible.

Dealer in Merchandise

Let us now consider some of the implications of being treated as a "dealer in merchandise." If a wholesale butter and egg firm does an annual volume of $1,000,000, all of which is sold to New York City firms, its tax liability will vary greatly depending on its gross profit. If its gross profit is 2% or $20,000, it will pay a financial tax of 1% on such gross profit or $200, since its gross profit percentage is not more than 3%. If its gross profit is 4% or $40,000, it will pay a gross receipts tax of 1/10 of 1% of $1,000,000 or $1,000. If however, its gross profit is over 5%, it will pay the regular tax of $2,500. Dealers in merchandise are dealers in certain fields, where the spread between the cost and selling price is not more than 3% or 5%, respectively, and is analogous to a commission. If less than 3%, they are taxable as a financial business on gross income (gross profit). If the gross profit is more than 3% and not over 5%, the tax is at the rate of *1/10 of 1% of taxable receipts.* A word of caution: The foregoing privilege is limited to certain specified industries, namely, tobacco jobbers (only on the sale of cigarettes and smoking tobacco), fruit and produce, butter and eggs, sugar wholesalers, meat, fish and poultry. There are very detailed regulations which should be obtained and reviewed if you have a client who might qualify under these provisions.

It may be that only one department of a recognized business can qualify for this relief. Perhaps during part of the year, all or part of the operation is so conducted. In order to claim the benefits of these provisions, it may be even necessary to break up receipts on a lot-by-lot basis, or by certain products, or by departments, or by various time periods.

The firm could file on a combined basis, both as a financial and general business obtaining prior permission from the Bureau.

Financial Business Tax

A word or two about the *financial business* tax. It is a tax of 1% of gross income from certain services and transactions including factors, commissions merchants, stock exchange members, personal loan companies, finance companies, etc. When in doubt, check the detailed list or the Comptroller's office and see if you can possibly qualify.

Problems of the New Firm

Up to now we have discussed the problems of an existing business. Let us consider some of the problems of a *new firm.* First and foremost, we should consider the possibility of creating a separate business entity whose sole activity in New York City would be the solicitation of sales. In every instance, try to confine the activities in New York City to come within the

GROSS RECEIPTS TAX RETURN INFORMATION WORKSHEET

NAME OF CLIENT: ______________________________

ADDRESS: ______________________________

Other locations from which goods are shipped: ______________

(All figures shown are to be *net* of returns, allowances and discounts)

ITEM		
1. Net Sales for Calendar Year		$ x x x
NON-TAXABLE SALES:		
2. Shipped to customers located *outside* of the United States	$ x x x	
3. Shipped from your premises, independent sources of supply, or contractors located *outside* New York City to customers located *outside* New York City..................	x x x	
Total Non-Taxable Sales.........		$ x x x
WHOLLY-TAXABLE SALES:		
4. Shipped from your New York City premises to customers *in* New York State	$ x x x	
5. Shipped from your New York State (other than New York City) premises to customers *in* New York City	x x x	
6. Shipped from independent sources of supply or contractors *outside* of New York City to customers *in* New York City	x x x	
Total Wholly-Taxable Sales		$ x x x
ALLOCABLE SALES:		
7. Shipped from your premises located *in* New York City to customers *outside* New York State	$ x x x	
8. Shipped from your premises *outside* New York State to customers *in* New York City	x x x	
Total Allocable Sales		$ x x x
OTHER INCOME:		
9. Commissions Earned, etc.		$ x x x

RECONCILIATION OF SALES

(To be completed *only* if client is on a fiscal-year basis)

(All figures shown are to be *net* of returns, allowances and discounts)

Net Sales (per General Ledger) for the fiscal year: (*a—opening date*), 1954 to (*b—closing date*), 1955	$ x x x
Less: Net Sales (per General Ledger) for the period: (*a—opening date*), 1954 to December 31, 1954	x x x
Balance—Net Sales for the period: January 1, 1955 to (*b—closing date*), 1955	$ x x x
Add: Net Sales (per General Ledger) for the period: (*a—opening date*), 1955 to December 31, 1955	x x x
Net Sales for the calendar year 1955 (same as item 1, above)	$ x x x

framework of the *United Piece Dye Works* case.

We have formed a new business, and find because of circumstances that we will be doing business in the city. When and how do we become subject to the tax? Let us look at an extreme case. Suppose a corporation is organized on February 1, 1955. It receives its charter from New York State, issues capital stock and makes certain expenditures for equipment, enters into a contract for the purchase of land, takes title, erects a one-story building but does not make any sales until February 2, 1957. Thus, although subject to the tax for the privilege period ending June 30, 1955, for which the return would normally be due on August 1, 1955, no return will be due in this instance. For the privilege period ended June 30, 1956, which return is due on May 15, 1956, we would still not file a return since no receipts have as yet been earned. Therefore, as a general rule in determining the base period for a new business, start counting from the date of organization or, if a foreign corporation, from date that you are authorized to do business within the state rather than from the date of your first sale.

There is another possible means of relief. Where substantially all of the assets of a firm are acquired by another firm as the result of a merger, consolidation or reorganization resulting in the termination of the first business, the "successor" entity can use the gross receipts during the base period of the predecessor firm. Thus, if a partnership incorporates on February 1, 1956, the corporation will file a return on May 15, 1956, using as its basis the receipts of the partnership for the calendar year 1955.

Problems of a Liquidating Firm

Let us look at the other side of the coin. A firm is in the process of *liquidation.* If it ceases activity prior to June 30th, it may avoid liability for the subsequent privilege period and escape paying taxes on its receipts from January 1 to the date of liquidation. What constitutes a liquidation under the act? Mere collection of accounts and notes receivable would not be construed as doing business nor would the payment of liabilities. But if the firm still has some fixtures left or some inventory left, *either or both* of which are sold or disposed of after June 30th, that firm *is deemed to be doing business in the succeeding privilege period.*

When a client contemplates going out of business in the first half of the calendar year, the foregoing should be called to his attention and an effort made to avoid liability for the sales activity of the current calendar year by disposing of all saleable assets before June 30th.

Certain Mechanics of Preparation

A word or two about the mechanics of preparation. The information we need for the preparation of this tax must be obtained from the client's personnel who are not aware of the many problems involved. It is therefore important that a worksheet be submitted for completion by the client. A copy of a suggested worksheet is reproduced on page 650. You will note that it includes the location of the various places of business of the client as well as any other location from which goods are shipped.

We have found it effective to group the various types of receipts by category as indicated. This has the tendency to

alert the compiler as to the benefits of treating an item as a non-taxable or allocable sale rather than as a fully taxable sale. They are more likely to find out what the true facts are, rather than to be guided by an invoice address, when they are alerted to possible tax savings.

When the firm is on a fiscal-year basis, a reconciliation between the figures shown for the calendar year and the fiscal-year figures as indicated in the general ledger has been found to be helpful.

* * *

In closing, I would like to point out that we have merely touched on some of the more important parts of this tax. There are however many special relief provisions affecting, for example, florists, private hospitals or rooming houses, etc. In every instance check the law or, if in doubt, call the Comptroller's office. They always have been very helpful in this respect.

Management Services and Tight Money Market

The current tight money market imposes an additional obligation on the part of accountants toward their clients, and at the same time presents an unusual opportunity to extend management services.

Many businesses today enjoy good earnings and increased sales and, yet, are unable to obtain bank credit in the amount desired, and, in some cases, are experiencing difficulties in renewing loans. As accountants, our function is to help clients place their business on a firm financial basis and to operate profitably. In most cases, clients welcome recommendations which will help accomplish these purposes. But sometimes a client may not be receptive to good suggestions relating to his financial and management affairs.

The client who is unreceptive to financial or management advice (and this includes the man who agrees with all recommendations but will do nothing about it) is more apt to take proper action when bank credit is tight and bankers must be convinced that management is on the proper path.

With the high prosperity we have enjoyed since the end of the war, many businesses have been undercapitalized and have used bank credit in place of equity capital, such as should be obtained by selling stock or taking in a partner. Moreover, many businesses have grown like Topsy, with little relationship between their productive output and sales effort and their capital availability to finance production and sales. The current bank credit situation may very well prove to be a blessing in disguise.

In one instance a client who had been very slow to accept his accountant's advice, changed his attitude completely when a bank loan was near maturity. In this case, the accountant made an overall analysis of the business by establishing sales and profit goals, prepared an operating and capital budget, and analyzed overhead expense in relation to volume. The results of the accountant's studies showed how labor costs and overhead could be reduced and unprofitable products discontinued. The accountant also made specific recommendations which resulted in substantial savings in insurance. Basically, in this case, the accountant did little more than repeat many of the recommendations which he had previously made to his client. However, the client was now in a much more receptive mood. At a conference of the banker, client and accountant regarding renewal of the loan, the client told the bank credit officer of the recommendations of his accountant, to show that positive action was being taken to improve his financial condition. The banker was very much impressed with the ability and initiative of the accountant.

The tight money market may temporarily present difficulties to borrowers, but if accountants take advantage of the opportunity, they can provide substantial benefits for their clients, and at the same time establish management services as an integral part of their services.

A professional comment from Joseph M. Landow, C.P.A., Franklin Square, N. Y.

New York City Excise Taxes—Administrative Procedures in Connection with Audits, Protests and Refunds

By HAROLD FERTIG, C.P.A.

This paper contains many practical and helpful suggestions for accountants unfamiliar with the administrative procedures in this area of practice.

Because of the small amount of tax involved and the infrequency of audits in connection with New York City Excise Taxes, many practitioners do not familiarize themselves sufficiently with the administrative procedures in connection with refunds from audits by, and protests to the New York City Bureau of Excise Taxes. This discussion is designed to help acquaint you with these procedures. The administration of the Bureau of Excise Taxes is the responsibility of a Special Deputy Comptroller, to whom all agents of the Bureau are responsible.

Audits

With the exception of the Bulk Sales unit, practically all audits are conducted in the field by field auditors. Usually, the audits cover a three-year period, or less if the taxpayer has been in business for a period less than three years. I will confine myself principally to the discussion of administrative procedures in connection with the sales and gross receipts taxes. These are the two City taxes with which we are most likely to be involved.

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This paper was presented by Mr. Fertig at a technical meeting of the Society held on May 3, 1956, under the auspices of the Committee on Municipal and Local Taxation, at the Engineering Societies Building.

In the course of his audit, the auditor will first verify the gross receipts. In connection with the examination of sales taxes, he will also verify the deductions, the taxes collected or required to be collected, the taxes paid on taxable purchases and payable on purchases from without the city. In auditing gross receipts taxes, in addition to the verification of receipts, he will concern himself with the determination of the proper allocation of receipts within and without the City and State of New York, and with the receipts claimed to be exempt.

Where the taxpayer maintains adequate bookkeeping records with sufficient evidences of internal control and external audit, the auditor will usually accept the gross receipts as reflected on the taxpayer's records and will check them against the federal income tax return. In so far as gross receipts taxes are concerned, the auditor will assume that all receipts are a proper measure of

the tax. The burden of proving a contention to the contrary is upon the taxpayer.

In the event that the taxpayer's records do not properly reflect his gross receipts or where no adequate records are kept, the auditor will determine such presumptive receipts on the basis of external indices, such as the number of employees, the rentals paid, the purchases, the inventory turn-over and gross profits, and/or the deposits plus cash receipts not deposited.

For gross receipts tax purposes, the auditor will determine the basis for allocations and non-taxable receipts; and in connection with sales tax audits, he will verify deductions taken for various exemptions, provided these deductions had been properly included in the total receipts in the first instance.

Because of the large volume of transactions and the impracticability of completely auditing each transaction for a three-year period, the Bureau has adopted a test-period audit. In making this test audit, the auditor will make a detailed audit for a pre-determined test-period. The test period is usually based upon the size of the business and the number of transactions involved. The taxpayer is informed thereof in advance of the audit to avoid as much inconvenience to him as possible, to facilitate the work of the auditor, and to help the taxpayer in justifying the transactions involved. He is asked to prepare schedules setting forth the details of the deductions claimed for the test period and he is afforded the opportunity to procure and produce evidence of his contentions.

The percentage of error applicable to this test period is then applied to the entire three-year period. If the taxpayer is of the opinion that the test period is not representative of the entire three-year period under audit, the auditor, with the approval of his superior, and providing the taxpayer is justified in his contention, will select another test period. The differences then determined for both test periods are averaged and the average percentage of difference will then be applied to the entire audit period. If, however, there is a change in the business or the basic transactions of the business, the auditor will generally take two or more separate test periods and apply the results found to exist in each to the respective differing periods. During this time, the taxpayer is given every opportunity to prove his contentions and the representative of the Bureau will cooperate with the taxpayer. He will review all lines of evidence presented to him by the taxpayer and will request affidavits directly from third parties. He has the power to subpoena and examine witnesses and their books and records.

A detailed examination of purchases of fixed assets and purchases of material on which sales taxes should have been paid will also be made for the entire three-year period. These purchases will include property received from vendors outside the city on which compensating use taxes should have been paid. The auditor will also determine the taxes which were actually collected by the taxpayer to determine that at least this amount was paid over to the city.

Assessments and Protests

At the completion of the audit, the taxpayer will be advised of the auditor's findings. In the event he is in agreement with the auditor, he will be requested to sign a "waiver and consent" for the amount of tax claimed to be due. Upon review and approval by the auditor's immediate superiors, the Reviews

Unit and the Special Deputy Comptroller, a notice of consent determination will then be mailed to the taxpayer. This notice is final and irrevocable.

In the event the taxpayer does not agree with the auditor's findings, he is afforded every opportunity to submit additional evidence in support of his contentions. He may present his position, informally, to the auditor or his superior. One example of a taxpayer's disagreement may be his dissatisfaction with the test period taken. In that event, he will usually be given the opportunity of furnishing the information with supporting evidence for the entire three-year period, or he may be in a position to justify a contention that one and possibly two separate test periods did not thoroughly reflect the transactions of the three-year period and, if correct, may be given an opportunity to choose an entirely different period. He may disagree with the auditor's findings of gross receipts based upon purchases and will be given the opportunity to prove that the gross profit percentage assumed by the Bureau may have been improperly determined.

In the event that no agreement is reached at this point, the Bureau will issue a thirty-day Notice of Determination, also known as a Formal Notice of Determination. A penalty of 5% and interest at the rate of 1% per month for each month of delay will be added to the final determination. However, at the discretion of the Comptroller, the penalty may be abated as well as one-half of the interest.

In connection with assessments, I wish at this time to point out that in the event a return for sales taxes and/or gross receipts taxes is not filed, or is filed incorrectly or for an insufficient amount, the taxpayer may be required to file a proper return. If he fails to file a corrected or sufficient return within twenty days after notice from the Comptroller, the Comptroller shall make a determination of the tax due, based on external indices. Unless the taxpayer, against whom the assessment is made, shall apply for a hearing to the Comptroller within thirty days, such determination shall be final and irrevocable.

Upon receipt of a formal notice of determination, the taxpayer or his representative may, within thirty days, make application to the Comptroller for an informal hearing before the Informal Hearing Division. He again presents his case in an informal manner, setting forth his evidence and proof of his contentions. He may submit new information at this time. In the event that an agreement is reached at this point, a waiver and consent will be signed, subject to the approval of the Special Deputy Comptroller. Should an agreement not be reached, the matter is then referred to the Formal Hearings Division where the taxpayer may represent himself or may be represented only by an attorney-at-law.

Upon the conclusion of the formal hearings, a final Notice of Determination is signed by the Special Deputy Comptroller and mailed to the taxpayer. This determination is irrevocable and may only be reviewed upon application to the Supreme Court within thirty days after such determination, provided that the tax together with penalties and interest, be deposited with the Treasurer or an undertaking be filed with the Comptroller.

Refunds

Taxpayers, whether they be purchasers or vendors, may make application for refund for any tax, penalty, or interest erroneously, illegally, or unconstitutionally collected or paid. Such

application for refund, however, must be made within one year from the date of payment. In the case of sales tax, notice of protest is not required. However, where a mistake of law is claimed, no application for refunds of gross receipts taxes may be made unless the original payment was made to the Treasurer *under protest in writing*, stating in detail the ground or grounds of protest. No notice of protest is required where refund is requested because of a mistake of fact. Such applications must be in writing and signed by the applicant, stating the grounds on which the refund is claimed, the time of payment and filing, that both were timely, and should be accompanied by evidence of payment. A purchaser who makes application must show that in addition to his paying the tax to his vendor, the said tax was in turn paid to the Treasurer. The Comptroller may require releases in such cases from both the purchaser and the vendor in the event that a refund is authorized. Such refunds may be issued subject to the Comptroller's right to final determination after audit. The determination on an application for refund is subject to review and revision in the Supreme Court in much the same manner as the final determination on an audit after formal hearing.

Our familiarity with the administrative procedures of New York City's Bureau of Excise Taxes may be helpful and save substantial amounts of money for our clients. The knowledge that the auditor's test period may be reviewed, changed, or supplemented may help to effectuate a savings for our client. The fact that we know that no application for refund for gross receipts taxes can be made where a mistake of law is claimed, unless the original return was filed under protest, may prevent an embarrassing situation for the accountant, should it later be found desirable to file for refund. The Bureau and its representatives are cooperative, and the taxpayer will be afforded every opportunity for a fair determination of the tax provided we are familiar with the available procedures.

Standards of Education and Experience for Certified Public Accountants: Highlights of the Commission's Report

By The Committee on Education and Personnel

The 176-page report of the Commission on Standards of Education and Experience for Certified Public Accountants was published for the Commission on August 6, 1956 by the Bureau of Business Research of the University of Michigan. Its publication has been described in the Journal of Accountancy editorial of August 1956 as *an event of major importance to the future development of the accounting profession in the United States.*

The November 13, 1956 general meeting of the Society will be devoted to a discussion of the Report. The following summary of the Commission's Report, consisting mainly of excerpts, has been prepared by the Society's Committee on Education and Personnel as an initial background presentation. Forthcoming issues of *The New York Certified Public Accountant* will contain articles in which the problems will be analyzed and the Commission's recommendations evaluated.

—The Editor.

Introductory

Nature and Composition of the Commission

The 24-member Commission, headed by Donald P. Perry, CPA, of Boston, included thirteen practicing CPAs, five deans or former deans of schools of business administration, and former officials of professional accounting organizations. Their study was financed by the American Institute of Accountants, the American Accounting Association, eight state boards of accountancy, and 32 state societies of Certified Public Accountants. However, the Commission, which was created in April 1952 as an autonomous body, takes the sole responsibility for its Report which is entitled *Standards of Education and Experience for Certified Public Accountants.*

Purpose of the Commission

The Commission's essential purpose was "to formulate standards of education and experience which are considered desirable prerequisites for state certification as a CPA". The Report is "an attempt (a) to provide the background for an appraisal of present requirements and practices and (b) to formulate standards of education and experience for CPAs, which are adequate to meet the *prospective* needs of the public and of the profession and which are also reasonably possible of attainment in the *foreseeable* future".

Long-Range Recommendations

Summary

The Commission proposes as a long-range goal that each state consider revising its laws to set up the following qualifications for admission to practice as a Certified Public Accountant:

1. College graduation, with substantial studies in general and cultural subjects as well as in accounting and other business subjects.
2. A qualifying examination to guide educational institutions in selecting students capable of pursuing the proposed postgraduate professional program.

3. Postgraduate professional study in collegiate schools of business administration specifically designed as preparation for public accountancy.
4. An internship program of approximately three months of practical experience with a firm of Certified Public Accountants as part of the professional training program.
5. Passing the Uniform CPA Examination.

The Commission's discussions on long-range objectives are summarized in the following excerpts from the Report.

College Graduation

"One of the principal problems with which the Commission has been concerned is whether the public would be best served if formal academic training were made the principal method of preparation for the profession. The trend in most professions has been to qualify, first, through experience only, later through a combination of experience and formal educational training, and eventually through formal education alone. This dependence upon the formal educational process assumes that there is a communicable body of knowledge which can be effectively transmitted to students. The Commission believes that there is such a body of knowledge in existence today in the fields of accounting, auditing, taxes, and other areas important to the CPA. * * *

"The Commission considers that completion of a college program leading to the baccalaureate degree, which includes a substantial amount of general and cultural courses, is a necessary preliminary to further training for public accountancy as a CPA. The Commission has not attempted to specify either the content or the proportion of the four-year undergraduate program which should be devoted to general and cultural areas of study. * * *

"The study of accounting, auditing, commercial law, finance, and other related subjects of business administration is a necessary part of the education of a CPA. This may be accomplished during the four-year undergraduate program or it may be accomplished subsequent to graduation." * * *

A Qualifying Examination

"The Commission recommends that a nation-wide examination be devised which would test the college graduate's intellectual capacity, his academic achievements, and his aptitude for public accountancy.* * *

"It should be emphasized that the recommended qualifying examination is not intended as a 'pass or fail' type of test. The examination would provide a measure of each candidate's intellectual capacity, his academic achievements through prior study, and his aptitude for public accountancy, in terms of nation-wide objective norms. The primary purpose of the examination is to assist educational institutions in selecting individuals who have the capacity and aptitude to undertake, with benefit, the training to be provided through the proposed professional programs." * * *

Postgraduate Professional Study

" * * * the Commission does not believe that the existing undergraduate programs in schools of business administration generally provide the depth and comprehensiveness of training for a definite professional objective which are needed by the CPAs of today and tomorrow.* * *

"The Commission believes that adequate preparation for the profession of public accountancy requires additional academic study beyond present four-year undergraduate programs. * * * The Commission envisages professional accounting programs, within the framework of collegiate schools of business administration, which will be comparable in approach and objectives to those of the professional schools developed in other fields.* * *

"The Commission recommends the establishment of professional academic programs, within the framework of schools of business administration, designed to train individuals for public accountancy. It should be emphasized that the Commission is not recommending merely the requirement of another year of academic study which would be comparable to that provided in undergraduate programs.* * * It is recommending the development of a type of curriculum which would be new in accounting but has been tested for generations in other professions—a professional program, with classroom materials drawn from public practice, with faculties experienced in public accountancy and maintaining close contact with changes in that profession, and with students directly and specifically interested in preparing for a career in public accountancy as a CPA.* * *

"The Commission has not attempted to specify a detailed curriculum for the recommended professional program.* * * However, it is recommended that the following areas of study be included:

(1) Oral and written communication.

(2) Auditing and other phases of the practice of public accountancy.

a. Auditing principles and standards.

b. Taxes.

c. Accounting systems and accounting controls.

d. Standards of professional conduct.

e. Administration of a public accounting practice.

(3) Accounting principles and their application.

(4) Business policy.

(5) Other areas of study.

"The amount of time to be devoted to the postgraduate professional accounting program will evolve as curricula are developed in different institutions, and as training materials are devised and new methods of instruction perfected. Under present conditions a program of twelve months appears to be a practical minimum, but additional time may be needed as individual programs are developed." * * *

An Internship Program

"The Commission recognizes the value of practical experience in the training of a public accountant, but it believes that from the long-run standpoint most of such experience should come after the individual has met the prerequisites for the profession through the formal educational process and satisfactory completion of the CPA examination. At the same time the Commission considers some exposure to actual accounting operations and procedures to be a highly desirable part of the formal education of an individual interested in public accountancy. For this reason the Commission is recommending the inclusion of an internship program as part of the educational requirement.

"The Commission suggests that an internship of approximately three months should be included in the recommended

professional program, to be completed generally during the period of December—April.* * *

"The Commission recognizes that there are practical problems involved in establishing an internship program on a broad base.* * * Such a development however, must depend upon the willingness and ability of the profession to make such training available to the students of the proposed professional programs." * * *

The Uniform CPA Examination

"The Commission regards the CPA examination as an essential factor in qualifying individuals as CPAs. The Commission recommends, as a long-range goal to become effective as professional academic programs are developed, that individuals be admitted to the CPA examination upon completion of the recommended educational preparation and, if successful, that they be awarded the certificate.

Summary Conclusion—Meaning of the CPA Certificate

The foregoing long-range recommendations are based upon the Commission's conclusion that the CPA certificate will come to be regarded as a mark of competence, although obtained only after a formal educational process.

"The recommendations of the Commission emphasize the formal academic process as one of the principal methods of preparing individuals for public practice in the years immediately ahead. From a longer-range point of view the Commission anticipates that professional programs, as a part of the formal educational process, may be developed to a level of effectiveness which would permit educational preparation to become the primary method of preparing for the profession.* * *

"The Commission believes that the CPA certificate may eventually come to be interpreted uniformly as a mark of competence, obtained through the formal educational process, to enter the profession of public accountancy as a CPA.* * *

"The Commission is concerned with the timing of the examination in relation to the academic training of a CPA. The principal problem is whether candidates should be permitted to sit for the examination upon completion of the educational preparation recommended by the Commission or whether they should also be required to obtain experience in public accountancy before attempting the examination.* * *

"The Commission believes that the CPA examination can be given most appropriately at the conclusion of the training acquired through the recommended formal educational process.* * *

"The recommendations of the Commission anticipate that in the foreseeable future individuals will be prepared for public accountancy through the formal educational process. The Commission believes that practical experience should follow rather than precede admission to the examination of the accountant who has completed the recommended educational preparation.

" * * * the Commission recognizes that practical experience advances the competence of a public accountant throughout his career, that some experience in practice has generally been relied upon in the past, and is being presently relied upon as a prerequisite for issuance of the CPA certificate. Looking toward the future, the majority of the Commission envisions that the proposed professional program in the formal educational process can be made so effective and so purposeful in nature that it will constitute the prin-

cipal method of preparation for a career in public accountancy as a CPA." * * *

Transitional Goal

Summary

The Commission frankly recognizes that *all of these developments lie ahead and one or more decades may be involved.* It therefore proposes the following standards for the transitional period:

"1. College graduation, including completion of an accounting major.* * *

"2. Satisfactory completion of the Uniform CPA Examination.

"3. A minimum of two years of practical experience in public accountancy under the guidance of a CPA."

College Graduation

Since college graduation may be too high a standard for certain jurisdictions, even during the transitional period, the Commission recommends for those jurisdictions a slow transition in stages of several years each, as follows.

"First, two years of college study without specification of the curriculum.

"Second, two years of college study and, in addition, the equivalent of an accounting major.* * *

"Third, four years of college study with a major in accounting." * * *

The CPA Examination

"The Commission recommends for the transitional period that individuals be admitted to the CPA Examination upon graduation from college and completion of the equivalent of an accounting major, but that the CPA certificate be withheld until the appropriate Board of Accountancy has determined, after appraisal of the candidates experience, that he has satisfied minimum requirements in terms of diversified and responsible practice of public accountancy."

Practical Experience

" * * * if experience in public accountancy is to be continued * * * pending the development of professional programs in academic institutions, the profession should itself assume a greater degree of responsibility for the type of training which is to be acquired through such experience.

Statements of Dissent

Summary

One member of the Commission, did not approve the report because "he considers that it does not supply to employing accountants and to members of state boards the detailed standards of education and experience that they expected, and because he is satisfied with the present meaning of the CPA certificate and does not want it changed".

Four other members disagreed with certain of the long-range recommendations particularly as to elimination of experience as a requirement for the CPA certificate since they regard practical experience as necessary to the development of the competence which the certificate should represent. Excerpts from their statements of dissent appear below.

By J. Cyril McGarrigle

"I do not agree that the accepted concept that a CPA is equipped to practice as a principal should be changed to one designating a CPA as qualified to enter the profession. Too many years and too much effort have been expended by our organized professional societies to acquaint the general and business public of our present concept. The suggested change would require a nullification of many years of successful public education as to the meaning of the CPA certificate.

"The present concept that a CPA is equipped to practice as a principal requires experience as a necessary qualification for practice.* * *

"I agree to the need of professional schools devoted to education for the practice of public accountancy and hope to see such schools in being in the near future. It would appear that the proper time to evaluate the contribution of the professional schools to the experience requirement would be after the graduates of these schools have demonstrated the results of the additional academic training for several years in the field." * * *

By Emanuel Saxe

"* * * I am unable to accept the proposed interpretation of the meaning of the CPA certificate which identifies it as a mark of competence on the part of the holder, obtained *solely* through the formal educational process, to enter the profession of public accountancy as a CPA. To do so would nullify the many years of arduous work spent by the profession in educating business men, government, and the general public to accept the CPA certificate as an evidence of superior technical skill and professional responsibility.* * *

"Since I believe in the retention of the practical experience requirement, I would postpone admission to the *Auditing* part (only) of the CPA examination until after this requirement had been completed by the candidate, and would set the level of this examination sufficiently high to make it a valid qualitative measure of the candidate's experience in actual practice."

By J. S. Seidman and Richard S. Claire

"We cannot subscribe to the planned extinction of an experience requirement for the CPA certificate. Nor can we go along with the altered meaning that the Commission would give to the CPA certificate as being a badge of education alone.

"Ours is a 'practicing' not an academic profession. The public looks upon the CPA certificate as a mark of competence in practice, not a license to learn how to practice. To the public, the CPA, young or old, denotes finished goods, not raw materials.

"To substitute added schooling for experience is to make topsy-turvy of the wisdom of the past. Instead of recognizing experience as the best teacher, it regards a teacher as the best experience. It ignores the many shortcomings of the classroom that the Commission report so clearly describes.* * *

"The proposed internship program is certainly no antidote. We cannot dignify a three month 'loan-out' to an accountant's office, during the busiest part of the year, as being 'experience' in the sense we are discussing. At most, we would merely credit the period of internship against the experience requirement.* * *

"Obviously one of the factors that impels the Commission is the difficulty of evaluating experience. That, however, is hardly a reason for scrapping the requirement entirely. Accreditation of schools is no simple matter either, yet the Commission properly recommends expansion, not extinction, of accreditation.

"Experience, just like education, needs to be appraised qualitatively. That merely presents a challenge to some good hard thinking and the evolution of standards.* * *

"We are heartily in accord with the Commission's view about an extra year of professional study. We think this will enable prospective practitioners to absorb more quickly and impressively their staff experience. With the expanded educational background, two years of experience should, in our opinion, be the standard."

The City College of New York: A History of Beginnings

By The Committee on History

A mild Saturday afternoon in January, 1849, marked the celebration in Manhattan of a significant *first.* At Lexington Avenue and Twenty-third Street a new institution of learning was opening under the name of the Free Academy. Dr. S. Willis Rudy tells us in his history of The College of the City of New York that this school was "the first municipal institution for free higher education to appear on this globe."

Though for strategic reasons it was called an Academy, from the day it opened its doors it offered a full collegiate course, and from its beginning it gave free daytime instruction to all who were qualified for admission.

Genesis of the College

The City had set up a Board of Education in 1842. An early president of the Board, elected in 1846, was Townsend Harris. He was a successful crockery merchant, a self-educated man devoted to the cause of education, a linguist, a champion of popular democracy and, like another illustrious New Yorker, an enthusiastic fire buff. He had an abiding desire to sponsor the founding of a college which would be open gratuitously to persons who had been pupils in the public schools of the city and county of New York and who met standards of intellectual ability.

His determined efforts bore fruit. On May 7, 1847, Governor John Young, whose early education had been won with difficulty, signed a bill which provided for a referendum to be held a month later, in which the City's voters should decide whether or not they wanted such an Academy. On June 7, the people went to the polls and voted for the bill in the generous proportions of six to one.

> This is the twenty-first in a series of articles on the History of Accounting in the State of New York. It was prepared by the Society's Committee on History.

The new building in which the opening exercises were held that January day in 1849 was designed by James Renwick, the architect who designed Grace Church and St. Patrick's Cathedral. Though necessarily simple and practical, it followed the architectural pattern of a Gothic Town Hall of the Netherlands, perhaps in tribute to the Dutch Republic which had founded New Amsterdam.

The Early Curriculum

In general, the early curriculum was that of the typical college of the period. Its particular divergence was in the greater stress laid upon practical instruction, especially mechanical, scientific, and business subjects. Among the studies available to early pupils were mathematics, history, composition and declamation, elements of moral science, the Constitution of the United States, drawing, bookkeeping and writing, phonography (shorthand), and the Latin, French, and Spanish languages. It was one of the first colleges to give the same importance to modern as to ancient languages, and to give English the greatest emphasis of all. Drawing was included "in view of its varied and practical uses." While offering its students a full opportunity to acquire a literary education, it also had a strong program in

chemistry, mathematics, civil engineering, and business subjects.

To accountants it is significant that from the first year of its existence the Academy included bookkeeping among the studies offered, in accordance with its purpose, as stated by the Executive Committee, of qualifying young men for mercantile pursuits.

The first graduates received their diplomas at ceremonies in Niblo's Garden in July, 1853, and were in addition stated to be "worthy of the degree of Bachelor of Arts" and entitled to receive the degree "when the Board shall be authorized to confer it." In April of the following year the State Legislature granted this permission, thereby conferring upon the Academy the full powers and prerogatives of a college.

It was not until 1866, however, that the word *college* became part of the official title. In that year the Legislature changed the name to The College of the City of New York, a designation which it retained until 1926. By New Yorkers this designation was often shortened to City College or C.C.N.Y.

In 1871 the College made a new approach to the problem of practical business education for younger pupils who could not remain in school more than a year. It created a separate Introductory Department which provided a special one-year Commercial Course which included such subjects as modern languages, arithmetic, bookkeeping, elementary physics, composition, penmanship, phonography, geometry, and business transactions. The classicists, however, objected to the presence of these younger students and to some of the courses offered. Because of their opposition the work of the Introductory Department began to disintegrate around 1881, and finally was discontinued.

Another facet of the problem was that from the beginning many of the regularly matriculated students were unable to complete the four-year course because the need to earn a living forced them to leave after a year or two of instruction. As early as 1874, the administration broached the idea of an evening session, but the Executive Committee vetoed the proposal as an unprecedented departure.

Evening Session Degree Work

Nevertheless, in the early nineteen hundreds, the College initiated another of its *firsts.* It established what is said to be the first night college in the United States to offer a full collegiate course leading to the baccalaureate degree. At that time Columbia and New York Universities and the University of Wisconsin were conducting night courses in special subjects only. City College alone, it is believed, conferred degrees earned in the evening session.

Classes began in 1909. The enrollment at that time was 200. By 1913 it had increased to 863. Not only in numbers but in seriousness of purpose the evening students were a promising group.

In an experiment to determine whether the College might not be of even greater service to the community, the Board voted in 1912 to admit special non-matriculated students. And in 1914 it voted that city employees, even though not high school graduates, be permitted to study in the Evening Session upon their passing certain examinations.

Establishment of the School of Business and Civic Administration

In 1912, Dr. John H. Finley, then entering his tenth successful year as President of the College, broached a

project which had long occupied his thoughts—the establishment of a School of Business and Civic Administration at the downtown location. Columbia had moved uptown in 1894 and New York University in 1896. In 1906, following their example, City College had moved its operations to an uptown site.

The Trustees entered upon the first steps immediately through an agreement with Mayor Gaynor, under which the College surrendered its Twenty-second Street site to the City for a new Children's Court building, receiving in return funds needed to rehabilitate the Twenty-third Street building in order that it might serve as temporary housing for the new division. At that time, Jacob H. Schiff, a member of the New York Chamber of Commerce, was pushing a project to raise a half million dollars for the purpose of establishing a College of Commerce in New York. Bernard M. Baruch, '89, then a Trustee of the College, conferred with the members of the Chamber of Commerce, and President Finley approached, not only Mr. Schiff but, among others, Andrew Carnegie, Thomas W. Lamont, and Thomas C. Platt, in the hope of inducing them to found the school at the Twenty-third Street site. However, the Trustees and the Chamber of Commerce could not agree on the terms of joint control and curricular organization, and the project fell through.

In May, 1916, Governor Whitman approved the Fertig Bill, which had been drafted by an alumnus, M. Maldwin Fertig. This Act permitted the College to award vocational diplomas and degrees, to charge fees for special courses, and to extend special privileges and educational advantages to non-matriculated students. In that year the College organized a Division of Vocational Subjects and Civic Administration and established a curriculum leading to the Diploma of Graduate in Accountancy. Professor Frederick Bertrand Robinson (who later became the fifth President of the College) was named to be its Director. This was the nucleus from which the School of Business and Civic Administration developed.

Soon it became apparent that not one faculty, but several separate faculties, would be best suited to the work of the College. On June 24, 1919, Professor Robinson was selected to be Dean of the School of Business and Civic Administration. In 1920, the school emerged as a regularly organized academic institution with full degree-granting powers. It offered courses leading to the B.B.A. and M.B.A. degrees. In January, 1926, the State Board of Regents listed its degrees as fully approved.

On December 4, 1928, Mayor Walker laid the cornerstone of a new eight-story building at Twenty-third Street for the School of Business and Civic Administration. The College had asked for a larger building, and at the ceremonies the Mayor promised to do all he could to secure funds to add the additional eight stories which were part of the original plan. Sixteen days later the Board of Estimate appropriated $875,000 for this purpose, and in due time the additional eight stories were superimposed upon the steel framework of the eight then in progress. This is the building as it stands today.

The Municipal College System

It was Dr. Robinson who prepared a bill for the Legislature, approved by Governor Smith on April 16, 1926, which set up a Board of Higher Education to administer the municipal colleges. These then included City College and Hunter College. Brooklyn College was not organized as an independent unit until 1930, and Queens College until 1937. The Act also provided that

the name The College of the City of New York should now be applied to the entire corporation administered by the Board of Higher Education. In view of this provision, the Trustees of the College, which had been known by that name since 1866, voted to change the name to The City College, a change which entailed a minimum of adjustment, as it left the familiar designations of City College and C.C.N.Y. undisturbed.

The Early Accounting Faculty

In the early days, 1915 to 1927, accounting instruction at the new division was under the jurisdiction of the Department of Economics.

Dr. Lynn Mateer Saxton (B.S., Lafayette, 1897; M.S., 1900: Pd.M., New York University, 1908; Ph.D., 1909) taught the earliest classes. Although his service as an accounting teacher extended only from 1915 to 1941, he had been on the faculty since 1903. His special subjects in the accounting field were auditing and advanced accounting problems. He was the author of several monographs in his field and was writing a book on advanced accounting problems at the time of his death in 1941.

Among the other accounting teachers who served before 1917 were Edward L. Suffern, DeWitt Carl Eggleston, George K. Hinds, Paul-Joseph Esquerre, Myron A. Finke, and Oscar J. Sufrin.

Edward L. Suffern, New York CPA No. 65, joined the faculty in 1916. He was a partner in the public accounting firm of Loomis, Suffern & Fernald and was to become a President of the New York State Society of CPAs. He died April 13, 1925.

Professor DeWitt C. Eggleston became a member of the Evening Session in 1916. A New York CPA and the author of many accounting texts, he taught cost accounting, advanced cost accounting, stock and bond brokerage accounting, commodity brokerage accounting, and bank accounting.

George K. Hinds held degrees from Ohio Northern and New York Universities and was also a New York CPA (No. 388). A member of the firm of Klein, Hinds & Finke, be came in 1916 to teach judicial accounting (including wills, estates, and bankruptcy), as well as corporation accounting, and was, in 1923, to organize the school's first "Income Tax Laboratory," where students were taught to prepare individual, corporation, partnership, and fiduciary federal and New York State income tax returns.

Many accountants will remember *Paul-Joseph Esquerre* as a colorful person. He was a New York CPA and held a B-ès-L from the University of France. He came in 1917 to teach accounting theory and problems. He, too, was the author of several books. He also conducted a school in which he coached candidates for the CPA examinations.

Myron A. Finke, a C.C.N.Y. alumnus and also a CPA and a member of the public accounting firm of Klein, Hinds & Finke, taught accounting systems and, later, advanced accounting theory and problems.

Oscar J. Sufrin was a graduate of New York University, a New York CPA, and a member of the Bar. He served twenty-five years as lecturer and instructor in accountancy. He also served in World War II as commander of the overseas staging area at Fort Hamilton, with the rank of Lieutenant Colonel. His health broke down while he was in service and in 1949 he died, without having returned to the College staff.

The first separate listing of the accountancy teachers appears in the catalog of 1917-1918. As will be seen, it

includes not only those named above, but an impressive number of others as well:

David Berdon, B.C.S., New York University, 1914; C.P.A. (New York), 1917

Raymond W. Bourke, C.P.A. (New York), 1912; Accountant, Department of Finance, New York City

Robert H. Brown, C.P.A. (New York), 1910; Accountant, Department of Finance, New York City

James J. Donovan, Accountant; Department of Finance, New York City

D. Carl Eggleston, M.E., Brown University, 1905; C.P.A. (New York), 1908

Paul-Joseph Esquerre, B-ès-L., University of France; C.P.A. (New York); Head of the Post-Graduate School of Accountancy

Myron A. Finke, A.B., College of the City of New York, 1906; C.P.A. (New York), 1916

H. G. Friedman, A.B., University of Cincinnati, 1904; Ph.D., Columbia, 1908; formerly Chief of Division of Accounts, Public Service Commission for the First District of New York

Lewis Gompers, Jr., C.P.A. (New York)

George Kent Hinds, B. Ped., Ohio Northern University, 1906; M.A. (Hon.), 1908; LL.B., New York University, 1905; C.P.A. (New York), 1907

Samuel C. Hyer, C.P.A. (New York); Accountant, Department of Finance, New York City

Abraham Jablow, B.S., College of the City of New York, 1904; Accountant, Committee on Education, Board of Estimate and Apportionment, New York City

Simon Loeb, B.C.S., New York University, 1908; C.P.A. (New York), 1916

Frank E. Mandel, B.S., New York University, 1911; C.E., 1915; C.P.A. (New York), 1916

Meyer Parmet, B.C.S., New York University, 1909; C.P.A. (New York), 1912; Accountant, Department of Finance, New York City

John B. Payne, C.P.A. (New York); Auditor's Department, Board of Education, New York City

Wolf Scheinberg, B.C.S., New York University, 1913, LL.B., C.P.A. (New York), 1913; Accountant, Department of Finance, New York City

Edward L. Suffern, C.P.A. (New York)

Oscar J. Sufrin, B.C.S.; C.P.A. (New York), 1917

It is interesting to note that, appropriately, several of these instructors were associated with municipal accounting, and specifically with the accounts of the City of New York. Three different courses in municipal accounting were given by *Robert H. Brown,* as well as a course in auditing. One of his courses was designated "Municipal Departmental Accounting in the City of New York."

Simon Loeb, a member of the firm of Loeb & Troper, who was also to become a President of the New York State Society of CPAs, lectured on auditing.

Meyer Parmet was an instructor in accountancy, specializing in corporation accounting and financial statement analysis.

The catalog also listed these lecturers and consultants, who, with nine assistants, conducted war emergency courses in commercial practice:

Joseph J. Klein, B.S., College of the City of New York, 1906; A.M., New York University, 1910; Ph. D., 1911; C.P.A. (New York)

Harriett B. Lowenstein, L.L.B., C.P.A. (New York)

Reuben Weinstein, B.S., College of the City of New York, 1907

The purpose of these courses was to train older men and women in clerical procedures to replace young clerks and bookkeepers then entering the armed services. Felix M. Warburg, a partner in Kuhn, Loeb & Co., became chairman. Several hundred students were enrolled. Classes met at the Twenty-third Street building and in the Assembly Hall of the Commerce and Trade Association.

Dr. Klein and Miss Lowenstein organized the courses. Dr. Klein is a former president of the New York State Society of CPAs and a partner in the firm of Klein, Hinds & Finke. From 1916 to 1918, he taught accounting, accounting systems, and auditing, and in 1919, under the sponsorship of the United States Treasury Department, offered the first course in federal income taxation to be given in any American college.

Miss Lowenstein (now Mrs. Jonah J. Goldstein) was an attorney as well as one of the earliest women CPAs. A previous article by the Committee on History, *The First Woman C.P.A.* (Christine Ross), touched briefly on some of her achievements.

That the College was, from the beginning, mindful of the benefits to be derived from special lectures relating to fields that concern the professional auditor is evidenced by the following list, from the same catalog, of special lectures in auditing and systems:

C. L. Morgan: The Moon-Hopkins Devices

H. J. Miller: The Burroughs Adding Machine

M. E. O'Brien: The Comptometer

L. A. Wolfe: The Elliott-Fisher Devices

Myron A. Finke, A.B., C.P.A.: Accounting Systems for Advertising Agencies

Ernest Katz: Systems for Department Stores

D. Stern: Underwood Typewriter Devices

Henry B. Fernald, C.P.A.: Mining Accounting

John B. Briggs: Filing Systems

Edwin Mayer, B.C.S.: Accounting Accounting Systems for Bankers

The 1919-1920 catalog shows the following additions to the accounting faculty:

Lecturer on public utilities accounting:

Milton B. Ignatius, LL.B., Union University, 1911; LL.M., 1913

Instructors in accounting:

James J. Donovan, C.P.A. (New Hampshire), 1918

James E. Tallent, B.S., Cooper Union, 1913; C.P.A. (New York), 1916

A. G. Belding, B.S., New York University, 1904; C.P.A. (New York), 1902

Leonard Blakey, B.S., Beloit, 1904; Ph.D., Columbia, 1912

Special instructors in accounting:

David Miller, B.S., College of the City of New York, 1909; C.P.A. (New York), 1917

John Linker, B.S., College of the City of New York, 1900; LL.B., New York University, 1903; M.A., 1911

William H. Burns

Benjamin Freeman, A.B., College of the City of New York, 1905; C.P.A. (New York), 1908

John F. Hickey, C.P.A. (New York), 1912

Conrad J. Saphier, B.C.S., New York University, 1917; M.C.S., 1919

Tutors in accounting:

Charles R. Taylor, B.C.S., New York University, 1913

David Berk, B.S., College of the City of New York, 1918

Morris C. Troper, A.B., College of the City of New York, 1914; B.C.S., New York University, 1917; M.C.S., 1918

Benjamin L. Blau, B.S., College of the City of New York, 1918

Benjamin Harrow, B.A., New York University, 1913

Meyer J. Ostrow, C.P.A. (New York), 1916

Ulysses S. Tasch, A.B., College of the City of New York, 1907; LL.B., New York University, 1912

Louis Weinstein, B.C.S., New York University, 1915; C.P.A. (New York), 1918

Instructor in bookkeeping:

Simon J. Jason, A.B., College of the City of New York, 1906; LL.B., New York University, 1909; M.A., 1917

The same catalog lists four instructors in the Brooklyn Branch of the Evening Session:

Instructors in accounting:

John B. Payne, C.P.A. (New York)

William N. Conant

Special instructors in accounting:

Clarence E. Cowles

Leon A. Merrill, C.P.A. (New York), 1912

The Department of Accountancy

From these beginnings the school expanded rapidly and on June 2, 1927, soon after Dr. Robinson became President, the Trustees established a separate Department of Accountancy and appointed Professor George Monroe Brett as its first Chairman.

Professor Brett was a native of Maine and a graduate of Bowdoin College. From the faculty of New York University he came to City College in 1906, where he remained until his death on November 7, 1941. In the earlier years of the school, he and Dr. Saxton taught the classes in advanced accounting. In addition to his appointments as Professor and Head of the Department of Accountancy and Curator of the College, he conducted courses in accounting and actuarial science for the Metropolitan Life Insurance Company.

At his death, Dr. Harry L. Kunzleman succeeded him as Department Chairman. Dr. E. I. Fjeld took over the post in 1947 and was succeeded in 1950 by Dr. Emanuel Saxe, who, in September, 1956, relinquished it to Dr. Stanley B. Tunick, in order to take office as Dean of the School.

Dr. Saxe is a New York CPA and a member of the New York Bar. A City College alumnus, he also holds degrees of Doctor of Jurisprudence and Ph.D. from New York University. He came to the City College faculty in 1928 and has written several books and numerous articles on accounting. For ten years to October 1956, he served as editor of *The New York Certified Public Accountant.*

In the meantime, the school had been renamed. Bernard M. Baruch, C.C.N.Y. '89, had always been a staunch supporter of City College and an advocate of democratic education. He had never

missed an opportunity to express his affection for the public schools and the free public college which started him on a career that is envied by many and is spectacular by any standards. Honoring one of the most illustrious of many illustrious City College alumni, in 1953 the school adopted the name of Bernard M. Baruch School of Business and Public Administration.

Ethics and Education

There are many references in accounting literature to the need for a better understanding by college graduates of standards of professional conduct. At the same time there appears to be a general acceptance of the idea that ethics can be taught in the classroom, and an apparent willingness to expect such training in graduates of schools of business administration. Unfortunately, standards of professional conduct receive little attention in most college accounting programs. If the subject is touched upon at all, it is usually in the overburdened course in auditing.

There is little doubt that colleges can train students in standards of professional conduct and probably can do so more effectively than can be done by other means. Such training is best accomplished by incorporating instruction and guidance in standards of professional conduct in all phases of the accounting program, rather than through specific courses devoted to that subject. This may not require much additional time, but it will require the explicit recognition of the importance of the subject in accounting programs.

Excerpt from Report of the Commission on Standards of Education and Experience for Certified Public Accountants, 1956.

New York State Tax Forum

Conducted by BENJAMIN HARROW, C.P.A.

Partnership Liquidations and the Partnership Year . . . New York City General Business and Financial Tax Law.

Partnership Liquidations and the Partnership Year

In the August 1956 issue we noted that a partnership year continues even though the partnership has terminated. For example, assume a partnership on a fiscal year basis ending July 31st. The partnership liquidates and a complete distribution to the partners is made after July 31, 1956 but prior to January 1, 1957. Is a partnership return due for the period from August 1, 1956 to July 31, 1957 even though the liquidation was completed in 1956? Are the distributive shares of the partners taxable to them in 1956 or 1957?

One of our members submitted this situation to the Income Tax Bureau for a ruling and was advised that distributions made upon the liquidation during the fiscal year beginning August 1, 1956 and ending July 31, 1957 would be reported by the individual partners on their 1957 calendar year returns. Even though the liquidation was completed after August 1, 1956 and before December 31, 1956, the partnership's final return would be due on or before November 15, 1957 for the fiscal year ending July 31, 1957. The state law, unlike the federal law, draws no distinction between liquidation and termination of a partnership.

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Mr. Harrow is a past Vice-President of the Society. He is a member of the Society's Committees on Meetings and Committee Operations, and has served for a number of years on the Institute's Committee on Federal Taxation.

Mr. Harrow is engaged in practice as a certified public accountant and attorney in his own office in New York City.

New York City General Business and Financial Tax Law

This tax is asserted against activities within the city of New York. If a taxpayer is engaged in business within and without the State, the New York activities may be so related to interstate commerce that they may not be taxed by New York City. That was the holding in two comparatively recent cases* where selling activities in New York City and rendering dyeing services were not subject to the tax.

The Comptroller now holds that persons engaged in the business of selling goods or rendering dyeing or similar services are not subject to tax if: (a) such persons maintain their principal offices and all plants, factories and warehouses outside New York State; (b) if all orders are accepted at an out of state office; and (c) if all goods are shipped directly to customers in New York City from points outside the State. In other words, the New York

* **United Piece Dye Works v. Joseph,** 282 App. Div. 60 affd., 307 N.Y. 780, cert. den.
National Steel Corp. v. Joseph, 283 App. Div. 867 (1954).

City activities are confined to solicitation and sales promotion.

That means that such persons may maintain an office in the City for sales solicitation or advertising. Service representatives may be maintained in the City of New York to service accounts but no separate charge may be made for such services.

A display room may be maintained in the city exclusively for the display of sample merchandise. A concern doing an interstate business may have manufacturers' sales representatives, independent sales agents or resident salesmen in the city without thereby becoming subject to tax.

An out of state concern may maintain an office in the city to adjust and settle customers' claims. An out of state concern may maintain bank accounts with New York City banks, or use a bank in the city as registrar, transfer agent or dividend paying agent.

Where a person engages in other activities in the city in addition to one of the above, he may become subject to the tax. For example, if a stock of goods is maintained within the city, in an office, factory or warehouse from which goods are sold and shipped to customers, such person becomes subject to tax.

Accounting at the S. E. C.

Conducted by Louis H. Rappaport, C.P.A.

Events Subsequent to the Statement Date . . . Amortization of Intangibles . . . Income from Investment in Subsidiary.

The twenty-first annual report of the SEC, covering the fiscal year ended June 30, 1955, contains some interesting reading for accountants in general and especially for those whose practice includes the certification of financial statements prepared for filing with that agency. The section of the report dealing with the Commission's activities in the fields of accounting and auditing was reprinted in full in the July, 1956 issue of this magazine. Of greater interest, however, was the discussion scattered through the report which gives the Commission's views on the accounting questions involved in specific cases.

Events Subsequent to the Statement Date

The matter of significant events occurring after the statement date is a recurring problem and one to which the accounting profession has given a great deal of thought. See, for example, Statement on Auditing Procedure, No. 25, issued by the AIA Committee on Auditing Procedure in October, 1954. This bulletin deals with events subsequent to the date of financial statements and sets forth, among other things, the Committee's view regarding the special problems which arise in connection with registration statements filed under the Securities Act of 1933.

Louis H. Rappaport, C.P.A., a partner in the firm of Lybrand, Ross Bros. & Montgomery, C.P.As., is the author of *SEC Accounting Practice and Procedure.*

In the Commission's twenty-first annual report, the SEC discusses a case in which the subsequent event was the payment of cash to officers of the registrant.

In a note to the financial statements contained in a registration statement, it was stated that payments on certain obligations to affiliated persons, reported as noncurrent liabilities in the balance sheet, had been accelerated subsequent to the balance sheet date. Since the acceleration resulted in a substantial reduction in the working capital indicated in the balance sheet, the registrant was requested to include in the captions, Total Current Assets, and Total Current Liabilities, a cross-reference to the aforementioned note which was expanded to disclose the source of the funds used in the acceleration. The disclosure indicated a reduction in working capital of more than $500,000 in the two months after the balance sheet date when working capital amounted to approximately $750,000.

Amortization of Intangibles

The SEC's annual report also discusses a registration statement in which the proper classification of and accounting for intangible assets presented a serious problem.

The consolidated balance sheets included an item designated "contracts and goodwill" in the amount of $7,332,389 which was represented as consisting principally of the excess of cost of acquisition over the cost of inventories and allocated cost of assets

acquired at the inception of the corporation.

The footnotes to the financial statements disclosed that during the year 1953 the corporation reached a settlement with the Internal Revenue Service with respect to the 1946 to 1948 Federal income tax returns, in which deductions had been claimed for amortization of contracts. Under the terms of this settlement, the amount at which "contracts and goodwill" was stated ($7,332,389) was construed for Federal income tax purposes to be made up of $2,931,729 subject to amortization on an agreed basis, and $4,400,660 was considered to be goodwill and not subject to amortization.

The registrant was advised by the SEC that the basis of settlement with the Internal Revenue Service in this case was likewise appropriate for financial accounting purposes, that segregation of the item covering both contracts and goodwill should be made, and that retroactive effect should be given to amortization of the contract portion.

The financial statements were amended to show in the balance sheet at June 30, 1954, the item of contracts and goodwill (segregated in a note), after amortization of $1,881,490, at a net amount of $5,450,899, which resulted in a reduction of earned surplus from $3,959,623 to $2,078,133 at the balance sheet date.

Income from Investment in Subsidiary

A registrant acquired during its fiscal year over 50 percent of the stock of another company. According to a periodic report filed with the Commission, the acquisition was for investment and not for resale. During the same year the acquired company paid a dividend which was more than its entire earnings for that year. In its annual report for that year the registrant reported its investment as a current asset and the entire dividend received as income. When the staff of the Commission objected to these procedures, the registrant sought to justify the accounting on the basis that, between the time its fiscal year ended and its annual report to shareholders was completed, the registrant had abandoned its original plan to acquire additional shares of the company and eventually to merge it. On this basis, it was urged that the shares held, being listed securities, could properly be classified as a current asset and that dividends received on the shares should be treated as income from marketable securities without regard to the fact that those dividends exceeded the registrant's proportionate share in the earnings since the date of acquisition. The SEC staff noted, however, that the abandonment of the original plan was only temporary, and that the plan was carried out substantially in its original form. The financial statements were thereupon amended to exclude the investment from current assets in the balance sheet, and to reduce that investment and the registrant's previously reported income by the amount of dividends paid out of earnings accumulated prior to the date of acquisition by the registrant. The effect of the exclusion of the investment from current assets was to reduce current assets from $5,900,000 to $2,800,000. Exclusion of dividends paid from the subsidiary's earnings prior to acquisition reduced net income as reported from $352,000 to $189,000.

Office and Staff Management

A forum for the exchange of views and information on all aspects of the administration of an accounting practice.

Conducted by MAX BLOCK, C.P.A.

Gleanings from the AIA Seattle Convention: Accountants' Ethics and Independence in Management Services . . . Income Tax Session—Control of Tax Carry-Overs . . . Control of Tax Categories by Clients . . . Local Practitioners' Problems . . . Control of Engagements in Process.

Gleanings from the AIA Seattle Convention

Accountants' Ethics and Independence in Management Services: This subject was discussed by Ira N. Frisbee, C.P.A. of California, who pointed out that it needs considerable exploration and discussion. In view of the increasing interest by accountants in this field, some of the points made, as interpreted by your editor, are here briefly summarized:

1. The same ethical standards prevail with respect to management services as to accounting services.

2. Though some management firms are incorporated, accountants could not with propriety incorporate a separate organization to supply management services.

3. The confidential relationship between the accountant and his client must also be maintained relative to technical management services.

MAX BLOCK, C.P.A. (N. Y., Pa.) is a former chairman of the Committee on Administration of Accountant's Practice of the New York State Society of Certified Public Accountants. He is a lecturer at The City College of New York in the graduate course on Accounting Practice. Mr. Block is a member of the firm of Anchin, Block & Anchin.

4. The mere furnishing of management and advisory services does not affect one's independence. However, becoming a member of a client's management team and taking a part in the carrying out of decisions virtually place one in the category of an employee and such conduct would impair an accountant's independence.

5. The partner assigned to a management engagement should be well informed as to the technicalities involved and should be qualified to supervise any technical personnel employed by his firm to perform such services.

Income Tax Session—Control of Tax Carry-Overs: There are a number of tax carryovers which must be carefully controlled to avoid failure to utilize them. Illustrative of such carryovers are the following: operating loss, capital loss, contributions, dividend paid deduction, and pension trust contribution.

The following procedures were recommended:

1. Review of the prior year's return.

2. Maintenance of a permanent tax file in which all carryovers are listed.

3. Listing of carryover items on top of a tax return or by attachment. The tax return reviewer should determine not only that carryovers have been utilized but also that new ones have been recorded.

Control of Tax Categories by Clients

An advanced type of tax control, and one that requires manpower and time that is not readily available for other than fairly large offices, is the tax category control. Tax categories are any individual items of income or deductions which, because of their unusual nature, are worthy of control. To illustrate, "sum-of-the-digits depreciation" is an item that might warrant a control. On one page of a loose-leaf book, headed up "Sum-of-the Digits Depreciation" would be listed the names of all clients utilizing that type of depreciation and the first year involved. Thus, should there be any change in the law or regulations affecting that item, it would be possible to determine very readily the names of the clients thereby concerned. When Sections 452 and 462 of the 1954 Code were retroactively repealed, the existence of such controls would have been a great convenience in determining the clients that were involved for whom amended returns had to be filed. Where refund claims become possible because of a court decision, or a change in the law, or a Treasury ruling, the determination of the affected clients would be facilitated if there existed a tax category control for the item giving rise to the refund claim.

Local Practitioners' Problems

Practitioners' Emergency Relief Plans: At the Institute office (270 Madison Avenue, New York 16, N. Y.) there are available copies of four different plans for handling or salvaging the practices of incapacitated or deceased practitioners by fellow accountants in their communities. Since the plans function best on a local community basis, accountants in each city or other local area should set up their own committees and methods of action. The plans available from the Institute will provide most helpful guides to local groups on how they can organize and function.

Control of Engagements in Process

The control of accounting engagements in process is one of the elusive aspects of administration. We have ticklers to assign engagements, but what records are utilized to determine that an audit has been completed at about the set date, that financial statements have been completed and brought to the office in a reasonable time, and that there have been no serious delays in review or in the typing and proofreading departments? In short, what controls exist for getting the financial statements to the client at the projected date?

It is no problem to create control records that will chart the course of an audit from initiation to the submission of the statements to a client. Such control records, however, require considerable coordination, cooperation, and clerical work, and should not be undertaken in any comprehensive form unless the mechanics and personnel requirements are carefully surveyed.

One may adopt a common industrial technique, namely, the preparation of a multiple form on which the projected mailing date of the financial statements would be stated. A copy of the form would go to the accountant in charge, the reviewer, tax department, typing department, to the mailing clerk, and to other appropriate office personnel. Each person would thereby be on notice as to what to anticipate and each one would be concerned about the timely receipt of the papers. A delay at any point in the chain of procedures would naturally be investigated by the person concerned. Each person concerned

would have to set his own deadline for receiving the papers, to ensure final compliance.

Another procedure is the centralized approach. A chart may be maintained of all audit engagements in process with control stages represented by columns. Thus, alongside of the client's name column, there would be columns for date audit completed, date papers sent to review, date papers sent to tax department, date papers sent to typing department, date papers sent to assembly and mailing department, and any other control points the practitioner desires. It would be helpful to provide place for several target dates to facilitate the daily survey of the status of the engagements in process. For example, one could note the expected audit completion date, a most crucial date; in addition, one might record the dates for the expected completion of the accounting review, the tax review, and the completion of the typing. In short, some form of timetable may be established and the compliance observed and recorded.

Such a centralized method could operate effectively only if the flow of the papers is channelled through one person who would be responsible for checking compliance. That person, upon receiving papers from, say, the accounting reviewer would note, in a column next to that labelled "Date sent to accounting reviewer" the date received and he would then record the date on which the papers were passed to the next person in the processing chain. If any unreasonable delay develops anywhere on the line, an investigation would be made and, if necessary the matter would be brought to the attention of the supervising partner or other supervisory personnel.

The two methods here described are quite comprehensive and may not have a ready appeal to the practitioners who will be awed by the amount of control processing involved. The chart control can be made less onerous by reducing the number of control stages, for example, to the following: (1) audit completion date (2) review completion date and (3) typing completion date.

There undoubtedly are various forms of control procedures in use. Descriptions of other methods in use are solicited and will be publicized.

Payroll Tax Notes

Conducted by Samuel S. Ress

Dr. Emanuel Saxe and the "Payroll Tax Notes" Department . . . Cost of Fringe Benefits Averages $819 a Year for Each Worker . . . Computation of Back Pay Under N.L.R.B. Awards—Social Security and Withholding Tax Effects . . . Occupational Wage Survey . . . Unemployment Insurance—Employer Joint Liability.

Dr. Emanuel Saxe and the "Payroll Tax Notes" Department

Whatever bits of information about payroll taxes and ways and means of handling some of its knotty problems, that may have been gleaned from these columns during the past ten years by members of the profession, became available because of the intuitive understanding and foresight of Dr. Emanuel Saxe, our beloved managing editor who retired from his post last month so that he could devote more of his fruitful time and energy to the high post of Dean of the Bernard M. Baruch School of Business and Public Administration of the City College of New York. It was "Mannie" Saxe who foresaw the impact on the field of payroll accounting and labor-management relations of the comparatively new field of payroll taxes imposed on employers and employees. Then came the new concept of "self employment" income of individuals and partners, along with the various fringe payroll "overhead" costs which have risen from a one percent, to a 20 percent rate during the past twenty years. They are scheduled to go even higher in the future. At the beginning of these developments, Dr. Saxe called upon the writer to contribute some articles on the subject. We wound up with a regular monthly column which, under his guidance, has become a regular department of *The New York Certified Public Accountant.* We acknowledge our thanks to Dr. Saxe, and we hope and pray that we will have the privilege of his friendship and guidance for many years to come.

Samuel S. Ress, an Associate Member of our Society since 1936, is a member of the New York and Massachusetts Bar. He has specialized in the payroll tax field since the inception of this type of legislation in 1936. He is engaged in public practice in New York City as a consultant on payroll tax problems.

Dr. Ress is a member of the Society's Committee on New York State Taxation and Chairman of the Sub-Committee on Unemployment Insurance.

Cost of Fringe Benefits Averages $819 a Year for Each Worker

The United States Chamber of Commerce has published a survey entitled —"Fringe Benefits—for the year 1955". One thousand firms were included in the study which found the fringe benefit cost to be 20.3 percent of payroll, with 39.2 cents as the cost per payroll hour. It was found that in this area of payroll cost differential between North and South, the fringe costs were substantially higher in the North. A copy of this booklet may be obtained by writing to the Chamber of Commerce — Economic Research Department, Washington, D.C.

Computation of Back Pay under N.L.R.B. Awards—Social Security and Withholding Tax Effects

Awards of back pay to make up for losses of income caused by unfair labor practices are most drastic. Back pay is awarded or withheld by the Board in its discretion. Back pay may be awarded even where the employer is not required by the Board to reinstate the employee. Where there has been an unfair labor practice involving a whole class of employees, the Board may and has ordered back-pay not only for the employees named in the charge but also for all similarly situated employees.

Employers must make social security deductions and withhold the income tax imposed under the Internal Revenue Code. However if a union is ordered to make the "back-pay" payment for an unfair labor practice, the "back-pay" is not subject to the social security or federal withholding tax. Formerly, the "back-pay" was computed on a lump-sum basis. The award was the amount the employee would have earned during the entire period of discrimination minus his net earnings during that entire period. Under this system an employee who earned higher wages in other jobs than he did on the job from which he was wrongfully discharged, might not be entitled to any back pay at all.

Now, the Board computes back pay on a quarterly basis. Earnings in one quarter of the calendar year are not offset against back pay owing for another quarter of the year. Another reason for the change in method of computing the "back-pay" on the basis of calendar quarters, is to protect the Social Security status of the employee which requires that he earn at least $50 in a calendar quarter in order to get credit for employment in that quarter, even though the social security tax must be paid on wage amounts of less than $50 earned in a calendar quarter generally.

Occupational Wage Survey

The U.S. Department of Labor has just published a report of its occupational wage survey in the New York, N.Y. area as of April 1956. Copies are on sale by the Superintendent of Documents, U.S. Government Printing Office, Washington 25, D. C. The study indexes standard weekly salaries for office clerical and selected plant occupational groups. A report is made on occupational earnings, establishment practices and supplementary wage provisions, minimum entrance rates of pay, scheduled hours, shift differentials, paid holidays and vacations, health, life, and pension insurance.

Significant wage information is tabulated for the following occupational groups in office employment:

Billers on billing machines: $62.50 a week for 36 hours; *bookkeeping-machine operators:* $66 for 37 hours; *comptometer operators:* $63.50 for 36½ hours; *file clerks:* $49 to $63.50 for 36½ hours; *order clerks:* $60 for 37 hours; *payroll clerks:* $68 for 36½ hours; *stenographers:* $63 for a 36 hour week; *key-punch operators:* $57.50 for a 36½ hour week; *secretaries:* $78.50 for a 36 hour week; *typists, class A:* $61.50 for a 36 hour week, and for *class B:* $53.50 for a 36½ hour week.

Other payroll information of particular interest to accountants for use in advising clients is contained in this informative report.

Unemployment Insurance — Employer Joint Liability

A recent decision of the Appellate Division in the Third Department, affirmed the Appeal Board decision in the "Matter of the application for benefits

of Elsie B. Peltz" whose employer was a co-partnership which did not consider itself liable for the unemployment insurance tax. In case number 49,292-55, the Appeal Board awarded benefits to Elsie Peltz and held her employer liable for the tax. The employer, a co-partnership not formerly liable for contributions, acquired the capital stock of a liable corporate employer on or about January 5, 1954 in order to increase the possibility of getting additional orders and with the further purpose of not disclosing the relationship between the corporation and the co-partnership. At that time the claimant had been employed by the co-partnership for over a year. Even though the claimant did work for both the corporation and the partnership, she remained on the payroll of the partnership. Other employees who had worked prior to the acquisition, for one or the other of the entities, thereafter worked for both but were paid by one employer. Separate books of account were kept by each concern. Both entities occupied the same premises. Orders obtained by each were filled from the partnership inventory. The Appeal Board ruled that the partnership was the liable employer, and the Appellate Division affirmed that decision.

The court ruled that the Appeal Board's decision was supported by substantial evidence and that the principle laid down in Capitol District Transportation Company, Inc., (21,233-49) applied in the instant case. Employees performing services for two corporations were held to be joint employees of both. The court pointed out that even though it had ruled that the Industrial Commissioner could not allocate the salary of any employee paid by one employer against the payrolls of a number of joint employers, a single employing unit existed. For purposes of collection of unemployment insurance tax on wages in excess of $3,000 received by the employee during the year, the court stated that a single employing unit existed in those cases, with the tax properly chargeable against one of the employers in the employing unit. The court stated further that this was not inconsistent with a holding that an employee, who renders services to two or more employers constituting a single business unit, may be considered the employee of either or both for the purpose of determining coverage. The commissioner is free to allocate the tax payable to more than one employer, but not on wages in excess of $3,000 paid to the employee of the employing unit.

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